



Chapter 3

EFFECTS OF CHANGES IN THE TRAVEL AGENT INDUSTRY ON CONSUMERS

THE DETERIORATING
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In addition to asking the Commission to assess the financial condition of travel agents, Congress also instructed us to consider how the changes in airline distribution practices are affecting consumers. Following the Congressional directive, the Commission considered two major issues. First, we find that the deteriorating financial condition of travel agents has not had a material effect on consumers. Second, although we find that some information may be more costly for some segments of the industry to access, there exist no significant impediments to consumers' acquisition of information. Indeed, the Internet has provided consumers with unprecedented quantities of information and options. Some, however, question whether consumers are using this information effectively, and suggest that travel agents will continue to make valuable contributions in developing low-cost travel options.

A. The Internet Has Changed Consumer Purchasing Patterns

The U.S. population was quick to adopt, and adapt to, the revolution in technology. A Harris Interactive telephone survey shows that, as of February-March 2002, 74 percent of adults are using a personal computer. That compares with 50 percent in 1995, when the U.S. population was already well on its way to computer literacy.¹ This means that slightly over one-quarter of the U.S. population is still not using a personal computer.

But, Harris found, in the same period the Internet grew much more quickly. In 1995, nine percent of adults were using the Internet, while the February-March, 2002 survey period puts that use at 66 percent, which translates to 137 million people. The growth in online use is expected to continue, though at a slower pace.

The same survey indicates the profile of Internet users tends towards more affluent, better-educated consumers. When analyzed according to age, however, the profile "look(s) more like a cross-section of all adults – up to but not including those over 65." Those over 65 comprise 16 percent of all adults but only 5 percent of Internet users. The

conclusion was that the majority of people who will use the Internet for travel research and bookings already have the ability to do so.

A poll taken during the last quarter of 2001 by Pew Internet & American Life Project Surveys found that two-thirds of those contacted who have Internet access go online to obtain travel information. A Plog survey of interactive travelers earlier in 2001 found that 78 percent of respondents had used the Internet not just to research trips but to buy travel, compared with 27 percent three years earlier.

According to a demographic study in 2001 by the Travel Industry Association, Internet users are younger, better-educated and more affluent than non-users. For users, average age was 40 compared with 52 for non-users. Education of users was higher, too, with 69 percent having some college education versus 29 percent for non-users. Users with full-time jobs comprised 66 percent of respondents, compared with 33 percent for non-users. Mean household income of those using the Internet was more than double that for non-users, \$67,400 versus \$29,300.

Consumers are purchasing an increasing amount of travel online. A ComScore Networks survey in the first quarter of 2002 showed they spent \$7 billion at domestic travel sites, up 87 percent from the same period in 2001. Second-quarter travel sales totaled \$7.8 billion, up 46 percent from the same period in 2001. Such volumes make travel the leading sector in e-commerce sales, with more than 40 percent of the total.²

A survey of travelers with e-mail addresses shows large increases in the use of all types of Internet booking sites.

TYPICAL BOOKING METHOD FOR LEISURE TRAVEL

Booking Method	2000	2001
Travel agent	36%	32%
Book directly	61	59
Travel club (AAA)	4	5
Corporate/Internet	1	3
Internet (Net)	27	49
Internet travel site (Travelocity, etc.)	11	24
Specific Internet site (Airlines, hotel, etc.)	15	29
Travel agent Internet site	3	2
Other method	6	4

Source: 2001 Travel Weekly Consumer Survey, travelers with an e-mail address. Total adds to more than 100% because of multiple responses.

According to a Forrester Research survey of consumers using the Internet for research and purchasing travel during 2001, the major reason for booking more travel online is price. The survey separates consumers into two categories: those who had researched but not bought travel online, and those who had made travel purchases. Of those booking online, 68 percent said they did so because they thought prices were lower, 67 percent because they were assured prices were lowest there, 56 percent because information was more complete and 55 percent because agents were charging higher fees.³

A PhoCusWright survey produces a similar result. Of three types of distributors — traditional agents, travel suppliers and online travel agents — consumers perceive online travel agents as having the best price.

WHO OFFERS THE BEST PRICE?

Traditional agents	17%
Suppliers	18
Online travel agent	44
Don't know	21

Source: The Online Travel Market 2001-2002, PhoCusWright

However, most consumers tap several sources before they commit to buying. One poll shows a steady increase in the use of each category of information source, although increases were greater in the use of Internet sites and e-mail as sources.

TOP INFORMATION SOURCES (LEISURE TRAVEL) FOR ONLINE AIR TRAVELERS⁴

Source of info	1999	2000	2001
Travel agent	48%	56%	55%
Toll-free number	45	62	65
Online/WWW	57	66	93
Corporate travel department	4	5	30
Airline schedules/timetables	27	31	41
E-mail notification	23	29	48
Friends/relatives	25	22	34

Source: 2001 Travel Weekly Consumer Survey

The companion survey of the general population, which was done only in 2000, shows that 31 percent of adults used travel agents, while 56 percent of online users contacted agencies. The Department of Transportation says that consumers on average visit at least three sites while planning travel.⁵

Another 2001 survey indicates that consumers not only use multiple sites, but are shifting their use of certain online sources. Visits to supplier and online agency web sites increased, while use of search engines declined.

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TYPES OF INTERNET SITES USED FOR TRAVEL PLANNING

(Among 64.5 million Online Travelers who used the Internet to make travel plans)

	2000	2001
Search engine sites	77%	69%
Company sites	63	67
Online agency sites	52	63
Destination sites	63	63
Special interest sites	30	23
Travel guide sites	14	17
Newspaper/magazine sites	16	12
Community sites	15	7

Source: TIA, Travelers' Use of the Internet, 2001 Edition

The Forrester survey also shows an increase in multi-site shopping. Its research indicates that 41 percent of consumers researching travel and 33 percent of travel purchasers had a favorite web site, which they visited first but not exclusively. Consumers with a favorite site chose it, first, for ease of use and, second, because of a previous good experience.⁶

The use of multiple sites suggests that travel consumers are not yet convinced they should trust Internet information to the exclusion of other information. Indeed, both travel planners and purchasers said they trusted information from friends and family more than any other source.

Nonetheless, for those consumers with Internet access, online travel purchases are increasing markedly, showing a 50 percent increase from 2000 to 2001.

ONLINE TRAVEL PURCHASES

Year	Percentage of Respondents Making an Online Travel Purchase
2001	78%
2000	51
1999	37
1998	27

Source: 2001 Travel Weekly Consumer Survey, travelers with an e-mail address.

The cost of computer hardware, software and Internet connections is coming down, making home computing and surfing more affordable. Web sites will become easier to use and intelligent profiling will create travel offers based on prior experience and preferences. The perception that the lowest prices can be found on the Internet remains, and the consumer trend to online purchasing will continue.⁷

B. Consumers Have Benefited from the Changes in the Distribution System

The Commission believes that the changes in the travel agency industry have not had a material effect on consumers, but that, on balance, their position has improved. Even though they may now have to pay for advice from a travel agency, they have gained from the ease of accessing the vast amount of information available on the Internet. They can either rely on their own ability to make choices, or call on agents for independent advice and assistance in the reservation transaction.

For complex purchases, such as tours or cruises, consumers may continue to prefer travel agents.⁸ Those with simpler requirements, such as roundtrip flights, can either go it alone or use an agency. While we noted above that one of the airline goals is to gain control over consumers so that they rely only on a preferred carrier, the choice remains the consumer's.

Consumers who continue to avail themselves of travel agents, and must now invariably pay a separate fee for their services, may seem to be worse off for the change. However, all passengers paid for the cost

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of these “free” services in the price of their ticket.⁹ The move to a fee-based system for travel agent services may ultimately be fairer and more equitable because those using the service will pay for it. Because passengers now bear much of the cost of utilizing travel agency services, they are increasingly searching out lower-cost alternatives.¹⁰

Although the number of agents providing service to leisure passengers will continue to decline, and consumers will pay for their services, there is reason to believe that a sufficient number of agencies will remain to provide consumers a wide array of choices and competitive prices. Some agencies will become more specialized and geographic coverage may become less ubiquitous. However, because paper tickets are no longer necessary, consumers do not need geographic proximity.¹¹ The Commission, therefore, concludes that consumers have benefited from the changes in the distribution system, that there will not be significant impact on consumers in the future, and that the current condition of the travel agent industry will not have an adverse effect on consumers.

C. Consumers Can Still Benefit from the Use of Travel Agents, Even with the Internet

Consumers now have the best of both worlds – they can book for themselves on the Internet or they can use the services of travel agents. It is not clear, however, that the Internet always provides a better solution than using a travel agency. Because of the expertise of travel agents, those who pay to use them may achieve savings and services that would offset the added cost of service charges.¹² Agents have superior knowledge of the industry and are aware of various alternatives that can offer lower fares. They are far more likely than consumers to know enough to check alternative airports, or times of departures.¹³ Moreover, they can easily search the Internet as well as their CRSs for low fares. Since they are making reservation transactions throughout the day, and also have specialized web search tools, they can make such searches more efficiently than consumers. Once a booking is made, travel agents often continue to manage the client’s travel, serving as an alert system, trouble shooter, and advocate with the travel supplier.

Once airlines have attracted travelers to their sites, travelers are less likely to search for alternatives.¹⁴ Consequently, some witnesses testi-

fied, consumers may pay more for web fares than they might have had they used a travel agent because web sites generally limit the menu of fare and schedule requests offered to travelers.¹⁵ As always, there are exceptions. Some airline sites do allow consumers more manipulation of data during their search; some third-party sites are also better than others.¹⁶

A consultant told the Commission that there is a real possibility that consumers may pay higher fares on the Internet than they would if they used an agent. He cited the example of his roundtrip to Washington to testify at our hearing. First, he searched the Internet. The Internet fare, using the same outbound and inbound airports, was higher than expected. A travel agent suggested using a different airport for the return trip, producing a significantly lower fare.¹⁷

D. Corporate Travel Departments Do Not Need the Internet To Achieve Low Fares

It seems clear that major corporations that negotiate their own deals with airlines for corporate fares achieve prices that are the same as or lower than web fares for comparable service.¹⁸ Since corporate clients often have specially negotiated air fares that are available via CRS, use of web-only fares would not produce any great advantage. This is particularly true because the deepest discount web fares are highly restricted and non-refundable and, therefore, not suitable for much business travel. Indeed, a recently completed study by Topaz, a corporate travel agent auditor, found the fares provided by corporate agencies were fully competitive with web fares.

At the request of corporate clients, Topaz compared 19,000 fares booked on CRSs between January and June 2002 with fares found on comparable airline and online agency web sites. Topaz then attempted to replicate the booking on the Internet by searching the web sites specified by the company. The comparisons took place within two hours of the actual bookings, used the same itineraries as booked, and checked the airline or online agent web sites designated by the requesting corporation for the market. Topaz' results showed that Internet fares were lower eight percent of the time; and that 77 percent of the time corporate agencies found lower fares for the same itinerary than they would have on the directed Internet search. Corporate agents matched or beat the prices on similar airlines on the Internet 92 percent of the time.¹⁹

Topaz results notwithstanding, and despite corporate managers' attempts to crack down on deviations from policy, individual employees do use the Internet to compare and even book. As the economic downturn continues, these travelers remain concerned about their individual travel budgets. However, individual corporate employees who find lower fares on their own would not qualify for the more flexible contract terms airlines allow them under managed fare policies. And corporations lose other benefits of managed travel, discussed below (pp. 50-51).

E. Consumers Have No Impediments to Obtaining Information.

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Congress also asked the Commission to consider two questions related to travel information: whether there are impediments to the distribution of airline product and service information and, if so, the impact such impediments might have on traditional travel agents, online agents and consumers. To answer these questions, the Commission generally distinguished between impediments applicable to consumers and to travel agents.

"Impediment" is defined by the dictionaries as "a hindrance or an obstacle" or "that which hinders progress, motion, activity or effect."²⁰ Using this broad definition, the method in which fare information is distributed on the Internet clearly creates some impediments to the way participants in the industry do business. However, there are no actual impediments for the vast majority of consumers – they have numerous sources for all the information they might desire about fares and schedules.²¹

Far from creating impediments, the Internet has made available a wide range of information to which consumers never before had direct access. Consumers benefit for having a multitude of traditional agencies, online agents and airline web sites competing for their business. Never before have they had such easy access to complete information that will enable them to make travel decisions.

Some may argue that consumers would be even better off if all the fare information were the same on every web site and in travel agencies. However, the benefits of uniformity could be more than offset by the loss of competition, which forces suppliers to improve service and limit fees.²²

For consumers, any confusion due to the proliferation of channels is no more in evidence than when they shop online or in person for other goods and services, such as refrigerators, stoves, cars, medical information, and tax information. The growth of Internet sales, and the fact that travel is the industry with the largest volume of Internet sales, suggest that consumers appear satisfied with what they see and with their shopping experience.